

## Message Text

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22

ORIGIN EB-07

INFO OCT-01 AF-08 ARA-10 EUR-12 EA-09 NEA-10 ISO-00 TRSE-00

SS-15 SIG-02 LAB-04 FEA-01 ERDA-07 AID-05 CEA-01

CIAE-00 CIEP-02 COME-00 DODE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-15

OES-06 SP-02 STR-04 ACDA-10 /159 R

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NEA:RPRICKETT (SUBS)

----- 039472

R 072156Z DEC 76

FM SECSTATE WASHDC

TO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

USINT BAGHDAD

AMEMBASSY CARACAS

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY QUITO

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY PARIS

USMISSION OECD PARIS

USMISSION EC BRUSSELS

AMEMBASSY ANKARA

AMEMBASSY ATHENS

AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

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AMEMBASSY LUXEMBOURG

AMEMBASSY MADRID  
AMEMBASSY OSLO  
AMEMBASSY OTTAWA  
AMEMBASSY ROME  
AMEMBASSY STOCKHOLM  
AMEMBASSY THE HAGUE  
AMEMBASSY TOKYO  
AMEMBASSY VIENNA  
AMEMBASSY WELLINGTON

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E.O. 11652: N/A

TAGS: ENRG

SUBJECT: OPEN PRICE DECISION; US FIGURES FOR OPEC IMPORT  
PRICE TRENDS

1. RECENT STUDY BY U.S. BUREAU OF LABOR STATISTICS (BLS), AS YET UNPUBLISHED, REINFORCES OUR ARGUMENT THAT COST TRENDS OF OPEC IMPORTS FROM OECD COUNTRIES CANNOT JUSTIFY AN INCREASE IN THE OIL PRICE. WHILE WE DO NOT AGREE THAT OIL PRICES SHOULD BE SET BY THIS METHOD (INDEXATION) IN ANY EVENT, OPEC ERRONEOUS IMPORT PRICE DATA CAN NONETHELESS BE REFUTED. IN FACT OUR LATEST FIGURES ARGUE STRONGLY, ON OPEC'S TERMS, FOR CONTINUATION OF THE PRICE FREEZE. POSTS SHOULD THEREFORE DRAW UPON THE FOLLOWING, BASED ON THE BLS STUDY, IN DISCUSSIONS IN WHICH DUBIOUS OPEC CLAIMS ARE ADVANCED.

2. THE BLS HAS AGGREGATED EXPORT PRICE INDICES OF THE THREE MAJOR INDUSTRIAL COUNTRIES REPRESENTING 60 PERCENT OF OECD EXPORTS TO OPEC (THE U.S., JAPAN, AND WEST GERMANY) AND EXPORT UNIT VALUE INDICES OF 11 OTHER INDUSTRIAL COUNTRIES. THE 14 COUNTRIES TOGETHER REPRESENT THE SOURCE OF ABOUT 75 PERCENT OF OPEC'S MERCHANDISE IMPORTS. THE RESULTS INDICATE THAT DOLLAR EXPORT PRICES OF GOODS EXPORTED TO OPEC BY THESE COUNTRIES HAVE RISEN BY LESS THAN 1 PERCENT IN THE YEAR FROM MID 1975 TO MID 1976.

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IN FACT THIS STUDY SHOWS A 3.9 PERCENT RISE IN THE INDEX OVER A TWO-YEAR PERIOD BETWEEN THIRD QUARTER 1974 AND SECOND QUARTER 1976.

3. AGGREGATION OF EXPORT UNIT VALUE INDICES OF 14 MAJOR INDUSTRIAL COUNTRIES (I.E., USING UNIT VALUE INDICES PUBLISHED BY US, JAPAN AND GERMANY INSTEAD OF PRICE INDICES--

SEE PARA 5 FOR EXPLANATION OF DIFFERENCE) INDICATES SLIGHT DECLINE (0.2 PERCENT) IN INDUSTRIAL COUNTRY DOLLAR EXPORT PRICES TO OPEC FROM MID 1975 TO MID 1976 AND A RISE OF 5.2 PERCENT BETWEEN MID 1974 AND MID 1976.

4. TAKING ONLY EXPORT PRICES OF U.S., JAPAN AND GERMANY TOGETHER TO OPEC, BLS INDEX SHOWS A RISE OF 2.1 PERCENT BETWEEN THIRD QUARTER 1975 AND SECOND QUARTER 1976 AND A RISE OF 2.7 PERCENT BETWEEN THIRD QUARTER 1974 AND SECOND QUARTER 1976. THE LOWER FORMER FIGURE RESULTS FROM SUBSTANTIAL DECLINES IN THE AGGREGATE EXPORT PRICE INDEX OF THE THREE COUNTRIES IN FIRST AND SECOND QUARTERS OF 1975.

5. THE STUDY IS AN UPDATE AND IMPROVEMENT OF A BLS ANALYSIS OF FEBRUARY 1976. IT IS BASED ON PUBLISHED DATA ONLY SO THAT THE RESULTS COULD BE VERIFIED BY OTHER ORGANIZATIONS OR COUNTRIES IF THEY DESIRE. THE BLS INDEX DOES NOT COVER SERVICES WHICH REPRESENT ABOUT 30 PERCENT OF OPEC IMPORTS. HOWEVER, IF 70 PERCENT OF THE PRICES IN AN INDEX INCREASE BY ONLY 1 PERCENT, THE REMAINING 30 PERCENT WOULD HAVE TO INCREASE BY ALMOST 50 PERCENT TO BRING THE INCREASE IN THE TOTAL INDEX TO 15 PERCENT. THE INDICES ARE ALL IN DOLLAR TERMS AS OPEC MEMBERS RECEIVE A MAJOR PART OF THEIR PAYMENTS IN DOLLARS AND PURCHASE VIRTUALLY ALL OF THEIR IMPORTS IN DOLLARS. THE EXPORT PRICE INDICES OF THE U.S., JAPAN, AND WEST GERMANY REFERRED TO IN PARA 1 FIRST LINE ARE BASED ON TRANSACTION PRICES, I.E., PRICES ACTUALLY PAID FOR GOODS EXPORTED. AMONG INDUSTRIAL COUNTRIES, ONLY JAPAN AND GERMANY PUBLISH SUCH EXPORT PRICE INDICES; THE BLS HAS CONSTRUCTED ONE FOR THE U.S. WHICH COVERS ABOUT 70 PERCENT OF U.S. EXPORTS. ALL OTHER COUNTRIES REPORT EXPORT PRICE TRENDS IN TERMS OF UNIT VALUES. UNDER THIS METHOD, THE TOTAL VALUE OF AN EXPORT OR CATEGORIES OF EXPORTS, IS UNCLASSIFIED

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DIVIDED BY THE QUANTITY OR VOLUME. THE UNIT VALUE METHOD OF MEASURING PRICE TRENDS IS NOT CONSIDERED FULLY RELIABLE; IT INCORPORATES CHANGES IN THE COMPOSITION OF TRADE OR IN THE QUALITY OF GOODS AS PRICE CHANGES. MOST ECONOMISTS BELIEVE THAT UNIT VALUE INDICES HAVE A DISTINCT UPWARD BIAS. THUS EXPORT PRICE TRENDS MEASURED THROUGH UNIT VALUE INDICES USUALLY OVERSTATE THE ACTUAL INCREASE IN PRICES.

6. THE BLS STUDY WEIGHTS THEIR AGGREGATED INDICES BY THE AMOUNT OF TRADE OF EACH COUNTRY WITH OPEC. IN THE CASE OF THE US EXPORT PRICE INDEX, THE TRANSACTIONS PRICES ARE NOT THOSE FOR GOODS SPECIFICALLY IMPORTED BY OPEC COUNTRIES, BUT TRANSACTIONS PRICES COVERING US EXPORTS IN GENERAL. HOWEVER, IT IS UNLIKELY THAT PRICES OF US GOODS IMPORTED BY OPEC VARY SIGNIFICANTLY FROM GENERAL US EXPORT PRICES.

7. THE BLS STUDY IS AN ATTEMPT TO OBJECTIVELY ANALYZE THE EXPORT PRICE TRENDS OF THE US AND OTHER MAJOR INDUSTRIAL COUNTRIES TO OPEC. THERE ARE, OF COURSE, SUBSTANTIAL DATA PROBLEMS AND METHODOLOGICAL PROBLEMS IN CONSTRUCTING SUCH AN INDEX, PARTICULARLY IN THE AGGREGATION OF EXPORT TRANSACTION PRICE INDICES AND UNIT VALUE INDICES. NONETHELESS, WITHIN THE LIMITS OF SUCH PROBLEMS, WE ARE CONFIDENT THAT THIS STUDY ACCURATELY REFLECTS THE MOVEMENT OF EXPORT PRICES TO OPEC. ROBINSON

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